

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7446

BILL NUMBER: SB 524

NOTE PREPARED: Feb 18, 2011

BILL AMENDED: Feb 17, 2011

SUBJECT: Public Employees' Defined Contribution Plan.

FIRST AUTHOR: Sen. Walker

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Defined Contribution Plan:* This bill establishes a defined contribution plan as an option for new state employees. If a state employee who does not elect to become a member of the Plan, the employee becomes a member of the Public Employees' Retirement Fund (PERF).

The bill requires the PERF Board of Trustees to establish the same investment options for the Plan that are available for the investment of a PERF member's annuity savings account. It provides that a member's contribution to the plan is 3% of the member's compensation and is paid by the state on behalf of the member. It also provides that the state's employer contribution to the plan is at the same percentage rate the state pays to PERF as the state's employer contribution minus any amount required for the state to amortize the state's unfunded accrued liability in PERF. The bill establishes a minimum state employer contribution of 3% of plan members' compensation.

The bill establishes a five-year vesting schedule for employer contributions and requires a member who terminates state employment before the member is fully vested to forfeit amounts that are not vested. The bill establishes provisions for the withdrawal of amounts in member accounts. The bill also authorizes rollover contributions to the plan.

Study Committee: The bill also urges the Legislative Council to assign the Pension Management Oversight Commission the task of studying the issue of whether to provide an optional defined contribution plan for local Public Employees' Retirement Fund employers and the Indiana State Teachers' Retirement Fund for new employees. It requires, if the Commission is assigned the topic, that the Commission issue a final report containing the Commission's findings and recommendations, including any recommended legislation, not later than November 1, 2011.

Effective Date: July 1, 2011.

Explanation of State Expenditures: (Revised) *Defined Contribution Plan:* The impact to the state would depend on how the defined contribution plan might affect the defined benefit plan's actuarial assumptions. The actuarial assumptions include such projections as mortality, interest rates, salary increases, and turnover. If the assumptions changed due the creation of the defined contribution plan, then there could be some change in the state costs. If turnover in the defined benefit plan is reduced because new employees who expect to be long-term employees tend to choose the defined benefit plan, then the cost to the state would increase. When the economy turns down and to the extent the assets of PERF are under a defined contribution plan, there would be no state fiscal impact. However, to the extent the assets are under a defined benefit plan, the unfunded accrued liability would increase as the value of assets decrease, and state costs would increase.

The state would contribute the same rate of contribution (excluding the cost of amortizing the unfunded accrued liability) into the defined contribution plan as was contributed into the defined benefit plan.

Study Committee: The study of whether to provide an optional defined contribution plan for local PERF employers and the Indiana State Teachers' Retirement Fund for new employees would be done by the Pension Management Oversight Commission within the commission's budget as established by the Legislative Council. This provision should have no fiscal impact.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All; Legislative Council.

Local Agencies Affected:

Information Sources:

Fiscal Analyst: Chuck Mayfield, 317-232-4825.